



May 23, 2007

Mr. Gary Ball, President
Ventura County Resource Conservation District
3380 Somis Road
Somis, CA 93066

Dear Mr. Ball:

**Final Audit Report—Ventura County Resource Conservation District, Grant Contracts
03-095 and 03-153-554-0**

Enclosed is the final report on our audits of the Ventura County Resource Conservation District's (District) grant contracts 03-095 and 03-153-554-0. The Department of Finance, Office of State Audits and Evaluations, performed these audits of the Proposition 13 and 50 bond funds in response to the Governor's directive. The audits included a review of revenue, expenditures, internal control, and compliance with certain contract provisions.

Except as noted in the *Findings and Recommendations* section of this report, the District complied with the fiscal requirements of the grants, and its revenue and expenditures were fairly stated. The findings pertain to questioned costs and internal control/compliance weaknesses. The District's response is included in the enclosed report.

We appreciate the District's assistance and cooperation with our audits. If you have any questions regarding this report, please contact Diana Antony, Manager, or Jennifer Arbis, Supervisor, at (916) 322-2985.

Sincerely,

Original signed by:

Diana L. Ducay, Chief
Office of State Audits and Evaluations

Enclosure

cc: Mr. Stan Bajorin, Deputy Assistant Secretary, Resources Agency
Mr. Sam Schuchat, Executive Officer, State Coastal Conservancy
Ms. Regine Serrano, Chief of Administrative Services, State Coastal Conservancy
Ms. Barbara Evoy, Deputy Director, Division of Financial Assistance, State Water
Resources Control Board
Ms. Alice Stebbins, Chief of Administration and Contract Section, Division of
Financial Assistance, State Water Resources Control Board

Ventura County Resource Conservation District
Proposition 13 and 50 Bond Programs
Grant Contracts 03-095
and 03-153-554-0

Prepared By:
Office of State Audits and Evaluations
Department of Finance

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In response to the Governor's directive, the Department of Finance, Office of State Audits and Evaluations, performed these audits of the Proposition 13 and 50 Bond funds awarded to the Ventura County Resource Conservation District (District). The directive required the Department of Finance to audit and report on the expenditures of these funds.

The State Coastal Conservancy (Conservancy) awarded a \$132,000 Proposition 50 grant contract for the Ventura River Arundo Removal Demonstration Project. Our interim audit covers the reporting period December 15, 2003 to May 18, 2006.

The State Water Resources Control Board (Board) awarded a \$1,500,000 Proposition 13 grant contract for an arundo and donax eradication program in the Upper Santa Clara River Watershed. Our final audit covers the contract period January 15, 2004 to March 31, 2006.

The objective of these audits was to determine the District's fiscal compliance with the aforementioned grants. We did not assess the efficiency and effectiveness of program operations or the quality of completed projects. The responsibility for financial reporting and compliance rests with the District.

This report is intended for the information and use of state and District management. However, this report is a matter of public record and its distribution is not limited.

STAFF:

Diana Antony, CPA
Manager

Jennifer Arbis
Supervisor

Nichelle Thomas



INDEPENDENT AUDITOR'S REPORT

Mr. Gary Ball, President
Ventura County Resource Conservation District
3380 Somis Road
Somis, CA 93066

We have audited the accompanying Ventura County Resource Conservation District's (District) *Statements of Revenue and Expenditures* (Statements) for the following grant contracts:

<u>Contract Number</u>	<u>Audit Period</u>	<u>State Awarding Agency</u>
03-095	December 15, 2003 to May 18, 2006	State Coastal Conservancy
03-153-554-0	January 15, 2004 to March 31, 2006	Water Resources Control Board

These Statements were prepared from the District's records and are the responsibility of its management. Our responsibility is to express an opinion on the Statements based on our audits.

We conducted our audits in accordance with *Generally Accepted Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to provide reasonable assurance as to whether the Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statements. An audit also includes assessing the accounting principles used and significant estimates made by management. We believe that our audits provide a reasonable basis for our opinion.

The accompanying Statements were prepared, as described in Note 4, for the purpose of determining the District's fiscal compliance with the aforementioned contracts. The Statements are not intended to be a presentation of the District's total revenue and expenditures.

In our opinion, the *Statements of Revenue and Expenditures* present fairly, in all material respects, the claimed and audited revenue and expenditures for the contract numbers and periods specified in paragraph one, in conformity with accounting principles generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the Statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws,

regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of Statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance, as described in the *Findings and Recommendations* section of this report, that are required to be reported under *Generally Accepted Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the Statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the Statements. These reportable conditions are described in the *Findings and Recommendations* section of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the Statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not disclose all reportable conditions that are also considered to be material weaknesses. However, the reportable conditions described in this report are not believed to be material weaknesses.

This report is intended solely for the information and use of state and District management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Original signed by:

Janet I. Rosman, CPA
Assistant Chief, Office of State Audits and Evaluations
(916) 322-2985

May 18, 2006

STATEMENT OF REVENUE AND EXPENDITURES

**Ventura County Resource Conservation District
Ventura River Arundo Removal Demonstration Project
Grant Contract 03-095
For the Interim Period December 15, 2003 to May 18, 2006**

	<u>Claimed</u>	<u>Audited</u>	<u>Questioned</u>
Revenue:			
Proposition 50 Funds	\$14,616	\$ 14,616	\$ 0
Expenditures:			
Public Outreach	9,200	9,200	0
Project Administration	<u>7,040</u>	<u>7,040</u>	<u>0</u>
Total Expenditures	16,240	16,240	0
Less: Retention	<u>(1,624)</u>	<u>(1,624)</u>	<u>0</u>
Net Reimbursed Expenditures	<u>14,616</u>	<u>14,616</u>	<u>0</u>
Excess of Revenue over Expenditures	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of this statement.

STATEMENT OF REVENUE AND EXPENDITURES

**Ventura County Resource Conservation District
Upper Santa Clara River Watershed—Arundo and Donax Eradication Program
Grant Contract 03-153-554-0
For the Period January 15, 2004 to March 31, 2006**

	<u>Claimed</u>	<u>Audited</u>	<u>(Note 5) Questioned</u>
Revenue:			
Proposition 13 Funds	\$1,484,126	\$1,484,126	\$ 0
Interest Revenue	<u>7,080</u>	<u>7,080</u>	<u>0</u>
Total Revenue	1,491,206	1,491,206	0
Expenditures:			
Personal Services	268,000	245,229	22,771
Operating and Travel	66,000	66,000	0
Consultant and Construction	1,114,186	1,114,186	0
General Overhead	50,100	46,685	3,415
Less: Interest Revenue Offset	<u>(7,080)</u>	<u>(7,080)</u>	<u>0</u>
Total Expenditures	<u>1,491,206</u>	<u>1,465,020</u>	<u>26,186</u>
Excess of Revenue over Expenditures	<u>\$ 0</u>	<u>\$ 26,186</u>	<u>\$26,186</u>

The accompanying notes are an integral part of this statement.

NOTES TO THE STATEMENTS OF REVENUE AND EXPENDITURES

Ventura County Resource Conservation District Grant Contracts 03-095 and 03-153-554-0

NOTE 1 Description of the Reporting Entity

The Ventura County Resource Conservation District (District) is a special district of the state and operates as a local unit of government under the Public Resources Code. The District is funded primarily by grants and provides assistance to rural and urban communities to conserve, protect, and restore natural resources. The District is governed by nine directors serving four-year terms. Directors must be landowners or agents of landowners residing within the District.

NOTE 2 Program Information

In March 2000, California voters approved the Safe Drinking Water, Clean Water, Watershed Protection, and Flood Protection Act (Proposition 13), which authorized the State of California to sell \$1.97 billion in general obligation bonds. Proposition 13 supports drinking water, water quality, flood protection, and water reliability projects throughout the state.

In November 2002, voters approved the Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002 (Proposition 50), which authorized the State of California to sell \$3.44 billion in general obligation bonds. Proposition 50 supports programs that secure a safe, clean, affordable, and sufficient water supply to meet the needs of California residents, farms, and businesses.

Various state agencies administer these programs, making grants to local governments and nonprofit organizations.

NOTE 3 Description of Grant Contracts

Contract 03-095

The State Coastal Conservancy awarded the District a \$132,000 Proposition 50 grant contract for the period December 15, 2003 to June 30, 2009. This grant finances the Ventura River Arundo Removal Demonstration Project at Casita Springs. The project includes the removal of arundo donax (giant cane), treatment of arundo re-growth, monitoring, and public outreach. Eradication of arundo is necessary to maintain and enhance watershed health and the steelhead population.

Contract 03-153-554-0

The State Water Resources Control Board awarded the District a \$1,500,000 Proposition 13 grant contract for the period January 15, 2004 to March 31, 2006. This grant finances an arundo donax and tamarix eradication program on the Upper Santa Clara River Watershed. The results of this project should result in measurable riparian habitat improvements over the next 20 years.

NOTE 4 Summary of Significant Accounting Policies**A. Basis of Presentation**

The Statements were prepared from the District's accounts and financial transactions. The Statements summarize the District's recorded revenue and expenditures for the aforementioned grants and their specified audit periods. The audit periods run from the contract effective dates through either (a) the contract expiration dates, or (b) the most recent claim for reimbursement (as of the date of our audit fieldwork). Because project activities are still ongoing for grant contract 03-095, the District may submit additional claims for reimbursement that are not reflected in this report. This contract is deemed an interim audit.

The Statements summarize the District's transactions pertaining to the aforementioned grant contracts only, and are not intended to represent all of its financial activities.

B. Basis of Accounting

The District's governmental funds and accounts are maintained on the modified accrual basis and in accordance with the principles of fund accounting. Under the modified accrual basis, revenue is recorded as it becomes measurable and available, and expenditures are recorded at the time the liabilities are incurred.

NOTE 5 Questioned Costs

As noted in the *Findings and Recommendations* section of this report, the District claimed \$26,186 in overstated personnel and overhead costs on contract 03-153-554-0. The State Water Resources Control Board will make the final determination regarding resolution of the questioned costs, and whether any amounts should be returned to the state.

FINDINGS AND RECOMMENDATIONS

During our audits of the grant contracts we noted internal control and compliance weaknesses requiring corrective action. The following recommendations, if implemented, will improve the District's fiscal control and accountability for grant funds.

FINDING 1 Unsupported Expenditures

Condition: The District claimed a total of \$26,186 in unsupported costs on grant contract 03-153-554-0. Specifically, the District claimed \$22,771 in salaries and wages based on budgeted hourly rates instead of the actual costs incurred. In some instances, claimed rates were two to three times the actual rates paid to employees. As a result of the questioned salaries, claimed overhead was also proportionately overstated by \$3,415.

Criteria: Grant contract 03-153-554-0, Exhibit B, Item 1, and Exhibit C, Item 13, states that the District will be compensated for actual expenditures incurred. Budgeted contract rates generally establish the maximum rates allowed for purposes of the state-funded project. Claimed rates not supported by actual cost data do not meet this requirement.

Recommendation: Ensure that only actual, incurred project costs are claimed for reimbursement. The \$26,186 in questioned costs should be returned to the State Water Resources Control Board.

FINDING 2 Internal Control Should Be Improved

Conditions: Because the District is a small organization, it lacks basic internal control that could protect its funds and other assets from loss, theft, or errors. We found insufficient separation of duties and unapproved timesheets.

- A. **Separation of Duties.** The District does not sufficiently segregate accounting duties to protect grant funds from errors or irregularities. Specifically, the District's Account Manager performs a number of incompatible duties, such as preparing and distributing checks, maintaining general and subsidiary ledgers affecting cash transactions, and reconciling bank accounts, without independent review by other employees. Conflicts arise when the same employee handling or preparing checks also maintains the accounting records and reconciles the accounts. Although we recognize that a complete separation of duties is not possible in small organizations, there are

prudent control measures that the District can take to minimize the risk of loss.

- B. Timesheet Preparation, Review, and Approval.** Timesheets are not signed by the employee or reviewed and approved by a supervisor. Specifically, 39 of 44 timesheets reviewed lacked the signature of the employee, the authorized approver, or both. Without an employee signature and evidence of proper review and approval, there is no assurance that the hours claimed were actually worked, or that the hours allocated to different projects/contracts are accurate.

Criteria: Generally accepted internal control procedures require that certain accounting duties be separated so that no one person has control over an entire transaction cycle; and that the preparation, review, and approval of timesheets be documented to support the validity of time charged.

- Recommendations:**
- A. Require a person other than the Account Manager to periodically review disbursements, cancelled checks, bank statements, and bank reconciliations for propriety. Other District staff or Board Members could fulfill this important review function.
 - B. Ensure that timesheets are signed by the employee and reviewed and approved by a supervisor.

FINDING 3 Oversight of Subcontractors and Consultants Could Be Improved

Conditions: We identified opportunities for improvement in the District's management and oversight of subcontractors and consultants. Specifically,

- A. The District approved consultant invoices charged to grant contract 03-095 without adequate detail or explanation of the work performed.
- B. In connection with grant contract 03-153-554-0, the District executed a subcontract that did not specify the effective date, completion date, or performance period. Additionally, another subcontractor claimed costs for the acquisition of a laptop computer; however, the District did not address the ownership of this equipment nor the portion of acquisition cost allocable to the bond-funded project.

Lack of control and oversight of consultants, subcontracts, and related expenditures increases the risk of unsupported, unauthorized, and ineligible costs reimbursed with bond funds.

Criteria: Effective subcontracting controls include clear documentation and approval of services rendered and costs claimed, and specific contract commencement and termination dates. Further, all subcontracts involving bond funds should address the disposition/ownership of equipment and allocation of costs thereof. For example, state contracts usually include a provision requiring that equipment acquired with state funds be returned to

the grantor at project completion; or where equipment is to be retained by the contractor, that a reimbursement of fair value be refunded to the grantor.

- Recommendations:**
- A. Require subcontractors and consultants to identify the specific deliverables and services rendered on their invoices or claims for reimbursement.
 - B. Require all subcontracts to include specific commencement and termination dates, and provisions that address the ownership and allocation of bond-funded equipment.



Ventura County Resource Conservation District

P.O. Box 147 - 3380 Somis Road - Somis, California 93066 - Phone (805) 386-4685

April 19, 2007

Ms. Diana L. Ducay, Chief
Department of Finance
Office of State Audits and Evaluations
300 Capitol Mall
Sacramento, CA 95814

Dear Ms. Ducay,

Thank for allowing the Ventura County Resource Conservation District (VCRCD) the opportunity to respond to the audit findings regarding the Grant Contracts 03-095 and 03-153-554-0. The VCRCD is a Special District organized to assist rural and urban communities in Ventura County in land stewardship and conservation practices. The VCRCD has a small staff and depends mainly on grants to fund the organization.

The following comments relate to the Findings and Recommendations sited in the report:

FINDING 1 discusses unsupported expenditures. The difference in the amount claimed for Personnel Services and the audited amount was intended to cover the payroll expenses incurred by the VCRCD. The cost to the employer of FICA, Medicare and State of CA payroll taxes along with workers' compensation, vacation and holiday benefits allowed the employees makes up the approximately 12% difference in the amount claimed. The General Overhead amount allowed by the grant was considered by the VCRCD to contribute to the cost of operating the organization.

The VCRCD is audited annually by an independent Certified Public Accounting firm. The auditor was informed of the procedures used to bill the grant for personnel. The practice of covering the cost of employees in billing for reimbursement from grants is used by districts as a necessary tool in funding their organizations. It was never the intent of the VCRCD to compromise the conditions set in the contract. Please understand that this funding has allowed the organization to remain in business and that it would place an extreme hardship on the VCRCD to return the funds in question.

FINDING 2 discusses the lack of internal controls. Separation of duties is difficult in a small organization. The staff has reviewed the recommendations and implemented new procedures for check preparation and timesheet review. All employees have been notified that timesheets must be signed and the District Manager must approve all invoices and timesheets prior to issuing payment.



Ventura County Resource Conservation District

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FINDING 3 discusses oversight of subcontractors. Subcontractors have been notified of the findings of this audit. Instructions for submitting invoices have been distributed. Subcontractors will clearly state hours worked along with a brief description of the actual work performed. All assets purchased to execute the requirements of the grant are maintained at the District.

The VCRCD staff has reviewed the Independent Auditor's Report in great detail. The findings of the report have been presented to the Board of Directors. Compliance with the findings has been incorporated into the operating procedures of the District. The VCRCD would like to thank the Department of Finance for the opportunity to respond to the Findings and Recommendations section of the report.

Sincerely yours,

A handwritten signature in black ink, consisting of a large, stylized 'D' followed by a horizontal line.

EVALUATION OF RESPONSE

We have reviewed the District's response and acknowledge its position regarding the questioned costs. The District agreed to comply with contract requirements and to implement corrective actions to strengthen fiscal controls.

Based on our review of the response and subsequent documentation, we provide the following evaluation:

Finding 1. We originally reported that the District claimed \$34,163 in unsupported costs (\$29,707 in salaries and \$4,456 in overhead) as a result of reporting budgeted, rather than actual salary rates. In its response, the District requested that we consider other related payroll costs to offset the questioned costs. Based on our review of additional documentation we determined that these other payroll costs were supported and eligible for reimbursement. As a result, we have revised the questioned costs as follows:

	Personal Services	General Overhead	Total
Amount questioned in draft audit report	\$29,707	\$4,456	\$34,163
Additional allowable costs	(6,936)	(1,041)	(7,977)
Total amount questioned in final audit report	<u>\$22,771</u>	<u>\$3,415</u>	<u>\$26,186</u>